

## **Appendix XVI**

### **FAQs: Remittances**

#### **1. What are Remittances?**

"Remittances are the money that foreign-born workers send to their relatives and/or communities abroad. They are not tax exempt and are only sent after all payroll taxes have been collected." (Immigrant Remittances, Jeffrey Hsu)

#### **2. What are the Scale and Scope of Remittances?**

Most development professionals are now aware that remittances represent a significant resource flow to developing countries. One author reported that worldwide the flow of remittances exceeds \$100 billion per year with more than 60 percent going to developing countries. Many experts posit that these estimates under-represent the scale of remittances since many countries have inadequate processes for estimating or reporting on the funds remitted by foreign workers.

USAID staff estimate that personal remittances in 2000 from ethnic diasporas in the United States back to Part I and Part II countries (as defined by the Development Assistance Committee) was over \$18 billion dollars compared to \$12.4 in official development assistance from the US to those same countries. In other words, personal remittances are a large resource flow and have been overlooked in the past.

#### **3. How are remittances used?**

Focus groups in Latin America revealed that remittances are primarily used for consumption goods (82-85% of remittances were used for this); however, some remittances have been and more could be used for investment purposes in developing countries (5-6% of remittance flows). If we imply that 5% of the \$18 billion sent from the US back to home countries in 2000 were used for investment purposes, we are presuming almost \$1 billion in investment capital for small and medium sized enterprises. In addition, remittances are also used for children's health and education (4-8%).

In general, remittances account for 15% of a permanent emigrant's salary and 50% of a temporary emigrant's salary.

#### **4. Why are remittances important to USAID?**

Previously, governments paid little attention to remittances as a tool for economic development. This has recently changed because rapid social and economic transformations associated with globalization have led to a growth in remittances.

In the past, researchers did not have a positive image of remittances: they associated remittances primarily with consumption goods. Current research, however, indicates that remittances have an important role to play in the development of communities. This is demonstrated by the creation of hometown associations and collectives.

#### **5. How can USAID create development interventions around remittances?**

Remittances are a personal decision with monies sent from one family member to another. Some identified promising policy interventions include:

- Reduce the Transaction Costs of Remittances

## Tools for Alliance Builders

- “Channel” Remittances to Development Objectives
- Support Alternative Delivery Methods
- Increase the Volume of Remittance Flows

## 6. What is the size of US Originating Remittances by Selected Country of Origin?

The summary data below show remittances originating in the US by receiving country. From the table below, one can conclude that the US sends a large portion of remittances to Latin America, especially to Mexico. *(Note: the data below is only a partial list of countries and does not equal USAID’s estimates.)*

Selected Annual Remittances From the US to Immigrant Countries  
(Remittances values for the year 2000, US\$ billions)

<u>Receiving Country</u>	<u>Sent from the US</u>
China	0.1
Colombia	1.4
Cuba	0.8
Dominican Republic	1.5
El Salvador	1.5
India	1.2
Mexico	6
Philippines	3.2
Vietnam	1.5
<b>Total:</b>	<b>17.2</b>

*Source data: Hsu, 2002*

## 7. What methods are used to send remittances?

Traditionally, remittances have been hand-delivered or sent by transfer companies like Western Union in which case transaction costs are high. Many migrants still use informal sector to send money home because they fear fraud. Recently, bank and credit unions have solved some of the problems associated with remittances by somewhat reducing the high transaction costs and allowing for better measurement of these funds. Most Latino immigrants send family remittances through international money transfer companies such as Western Union and MoneyGram. *(Source: MIF Survey of Remittance Senders)* Overall, countries have varying preferences about how to transmit remittances. *(Meyers 1998, p.3).*

### Methods of Sending Remittances

<b>Methods of Sending Remittances</b>	<b>% Respondents</b>
Western Union	30%
People Travelling	15%
Mail & Money Orders	14%
Bank	14%
MoneyGram	11%
Credit Union	6%

*Source data: IDB’s MIF Survey of Remittance Senders: US to Latin America Nov/Dec 2001 (Administered by B&A, Bendixen & Associates)*

## 8. How has USAID used Remittances to Date?

### A. Pan-American Development Foundation: Working with Trusted Intermediaries-Hometown Associations

USAID is supporting Hometown Associations through a public-private alliance sponsored by the Bureau for Latin America and the Caribbean (LAC) in collaboration with the Pan-American Development Foundation. The LAC Bureau contributes \$300,000 to activities taking place in Haiti, Mexico, and El Salvador. The alliance activity consists of an innovative set of pilot projects to be implemented with migrant associations, more commonly known as "hometown associations" (HTAs). HTAs raise funds from members for local development projects in their communities of origin. This phenomenon, called collective remittances, has received little attention by donor agencies and host governments to date. USAID has previously funded research in this area, but the proposed program is the first of its kind for the Agency.

The activity consists of an eighteen-month program to transfer capacity to three immigrant groups in the US: the National Organization for the Advancement of Haitians (NOAH), Comunidades Unidas Salvadoreñas (CUS), and the Federación Oaxaqueña de Comunidades y Organizaciones Indígenas de California. These immigrant groups will implement three pilot community economic development activities—one each in Haiti, El Salvador, and Mexico, and will engage in a series of training sessions and monitoring trips with PADF. The three groups and PADF will also partner with in-country NGOs and the private sector to increase and better target community remittances for local economic growth in the region. The \$300,000 USAID contribution generates an additional \$150,000 in matching funds from various sources. The main project goal is to build and transfer capacity of US-based HTAs to support development projects in their home countries.

### B. WOCCU Partnership: Lowering Remittance Transaction Costs

The LAC Bureau is working with the World Council of Credit Unions, Caja Popular Mexicana, and the credit unions in Texas and California to leverage remittances for economic growth. The LAC Bureau contribution for this alliance is 660,000. This activity takes place in Mexico and focuses on economic growth. Mexican migrants and Mexican Americans sent home about \$9 billion last year -- more than official development assistance, twice as much as Mexico's agricultural exports, and about half of its oil revenue.

Sending money home so that it can fuel development is expensive. Steep cash transfer fees, a lack of bank accounts and identity documents, or corrupt and unscrupulous middlemen have drained much of the value of those remittances.

Recognizing that the flow of cash back to Mexico and other Latin American countries is an important source of development income, USAID provides \$500,000 to support the creation of an innovative new program to facilitate the flow of remittances to Mexico.

"USAID will work with credit unions in Mexico and the US to offer low-cost money transfer services," said Adolfo A. Franco, Assistant Administrator of the Latin America and Caribbean Bureau, at a September announcement ceremony in the Latino Community Credit Union in Durham, North Carolina.

"The program will also promote savings and investment by offering attractive, safe, and convenient methods for saving money or investing. In many cases, financial services –

## Tools for Alliance Builders

savings, credit, mortgages – will be provided to families that have never had them before,” said Franco.

WOCCU provides training, technical assistance, and technology to ensure the success of this effort. In addition, WOCCU has enlisted the assistance of the Texas and California credit union leagues, which provide additional training and internship opportunities for staff from Mexico.

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